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HOUSEHOLD EXPENDITURE IN FRANCE AND IN ENGLAND

In the last quarter of 1948 the Institut National de la Statistique et des Etudes Economiques and the Institut National d'Hygiène undertook jointly an inquiry into working-class household expenditure in Paris, Marseille, Lille, and St. Etienne, the results of which were published in the Bulletin de la Statistique Générale de la France, in 1949 and 1950. Additional information on household expenditure was made available to us.[1] The data thus obtained yield a picture of considerable detail, which is the more interesting since it can be compared with data of household expenditure and nutrition in England, collected at about the same time from working class families not greatly dissimilar from those that supplied the accounts in France.

1. The French Sample

The French household accounts were obtained from 4 different types of families, consisting of from 2 to 5 persons, two of whom were adults and the remainder children under 16 years of age. For the purpose of this paper, however, we have used only the data relating to those families that had dependent children. The French sample as presented here thus comprises families of from 3 to 5 persons, with an average size of 3.7 persons per family. There were 843 such families, over half of which lived in Paris and the remainder in the provincial towns. The sample covers families of salary earners as well as of wage earners, both belonging to the lower income groups. None of the earners held a position higher than that of a foreman or a clerk, most of the wage earners being, in fact, skilled, semi-skilled, or unskilled workmen, and most of the salary earners small employees or officials—porters, shop assistants, postmen, railwaymen, etc. The differences in the broad consumption patterns of these two groups of families were small, as also were the differences in their general income levels. We shall, however, in the following show figures of consumption not only for the total sample but also for the sub-sample of families of Paris wage earners with two dependent children, these being nearest in size and in type to the families of the English sample for 1948.

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[1] In the collection and interpretation of data I was greatly assisted by MM. Perroux and Mainguy of the Institut de Science Economique Appliquée ; M. Rivet of the Institut National de la Statistique et des Études Économiques ; Dr. Trémolière of the Institut National d'Hygiène ; and also by MM. Sauvy, Girard, and Daric, of the Institut National d'Études Démographiques ; Mme. Randoin and M. Duchêne of the Institut National d'Hygiène Alimentaire ; M. Lévy-Bruhl of the Institut National de la Statistique et des Études Économiques ; Mlle. Vinit of the Institut National d'Hygiène ; and Mlle. Vaissié and M. Bourçois of the Associations Familiales, all of whom sacrificed unstintingly their time and tendered advice whenever asked for it.

The French accounts were collected in October, November, and December, 1948. Each of the families stated in detail their household expenditure for one selected week. In addition, the outlay on items bought at longer intervals (*e.g.*, fuel, clothing, household goods) was ascertained for the whole year, and the weekly accounts adjusted accordingly. No figures of actual earnings were obtained from the families, but it can be assumed that the total expenditure as recorded approximately equalled the family income, for families of the structure represented by the sample.[1]

2. THE ENGLISH SAMPLE

The sample of English household accounts was collected by the Institute of Statistics between the end of August and the beginning of November, 1948, *i.e.*, during a period slightly earlier than that covered by the French sample. The results of this survey have already been discussed in detail in earlier numbers of the BULLETIN,[2] and we shall here confine ourselves to a brief summary of essential points in which our sample seems either to agree with, or to differ from, the French sample.

The difference between the two samples that at once springs to the eye is that of size, the English sample consisting of only 65 household accounts as against the 843 of the French sample. While, however, the French inquiry had only started in 1948, the English inquiry had behind it a long series of surveys which began in 1940 and which, to a large extent, was confined to the same families.[3] This gives more substance to the English survey of 1948 than could otherwise be claimed for it. The samples prior to 1948 had, indeed, been considerably larger than the sample for that year[4]. In all the preceding years the families had kept an account for 2 weeks; the small sample for 1948, however, consisted of accounts of all which covered the daily expenditure for four consecutive weeks.

It might have been expected that the smallness and selectiveness of the sample would have severely affected its comparability with the samples of earlier years, and hence its validity. As far as we could ascertain this was not the case. The distribution of large and small families in the small sample was very similar to that in the larger samples of earlier years. The long experience of our investigators and of most of the housewives in the keeping of accounts seemed to result in a very careful accounting even by the busy mother with a large family and by the housewife going out to full-time work, thus reducing the need for compensation of errors to a minimum. Since nearly all the families that supplied budgets in 1948 had already kept an account in previous years, we already possessed with respect to them ample information regarding their financial standing and modes of expenditure, which helped in assessing the correctness of their accounts for 1948. There was in these families neither unemployment nor any change in the types of employment of the main earners, and strong fluctuations in family income were very rare and were observed only in a few cases, either because a member of the family had become a subsidiary earner or because a child, who had been an earner, had left the family. Such changes were, of course, carefully investigated and noted.

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[1] A margin of the actual income remained in fact unaccounted for ; but this can probably be set off against a small proportion of part-time earners who did not pay social insurances and did not declare themselves as earners. There exists a strong inducement for French housewives not to reveal part-time earnings, since a family with young children and only one earner is entitled to a special family allowance—besides the ordinary children's allowance—which is forfeited if the mother goes out to work.

[2] T. Schulz, *Working Class Household Expenditure in* 1948, and *Food Expenditure and Nutrition in* 1948. BULLETIN, Vol. 12, Nos. 3 and 4.

[3] A number of these accounts were supplied only intermittently and not in every succeeding year.

[4] It had been intended to bring the series to an end in 1947 ; but continuing shortages of certain essential foods and other consumer goods made it desirable to obtain some further comparable data of consumption, and we gratefully accepted the continued cooperation of a number of investigators and housewives who had expressed their willingness to assist in some further surveys. The series was concluded in 1949.

The majority of the English families revealed their full income during the four weeks under survey.[1] No statements were obtained of the actual expenditure per year on clothing, durable household goods, etc.; neither were we told how the earners used the money retained by them. The average outlay per family on fuel and lighting during the four weeks covered by the survey was, however, probably fairly close to the average outlay of these families during any four-weekly period in 1948; this, at least, was suggested by the figures of expenditure on these items of those housewives who were in a position to supply us with statements of their outlay during the greater part of the year.

3. THE STRUCTURE OF THE FAMILIES AND THEIR INCOMES

Table I shows the structure of the families of the samples. It will be seen that the English families were on the average larger than the French families of both the whole sample and the sub-sample of Paris wage earners' families. These latter, however, included approximately as many dependent children as the English families, *viz.*, 2 as compared with 2.1 per English family. The whole French sample had an average of only 1.7 dependent children per family. The number of earners stated by the 843 French

TABLE I

Structure of Families

	French Budgets		English Budgets
	4 Towns	Paris Workers	6 Towns
No. of Families	843	89	65
Persons per Family	3.7	4.0	4.6
Of these			
Adults	*2.0*	*2.0*	*2.5*
Dependent Children	*1.7*	*2.0*	*2.1*

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[1] These figures did not seem always to cover all overtime earnings and other ' windfall ' income. They did, however, include all family allowances.

families amounted to nearly 1.3 per family and that of the Paris sub-sample to 1.2. The average number of earners per English family was 1.6. Since the French families had been selected in such a way as to only include children below the age of 16 years, the subsidiary earners in these families were generally housewives, while in the English families such earners were found most often amongst the older children still living at home.

The French families recorded an average weekly gross income of a little over 9,300 francs; this represented all the earnings plus the family allowances, which latter amounted to about 1,000 francs per child per week.[1] The English families stated only their net incomes ; these, too, included the children's allowances but excluded P.A.Y.E. taxes and contributions to compulsory insurances, deducted at work. This net income averaged £8. 8s. per family per week. All medical services, and medicines and appliances prescribed under the National Health Service, were free in England, but had to be partly paid for in France, the average net cost of such payments amounting to about 1.7 per cent of the income per French family.[2] Since the English families, too, had some outlay on ointments, aspirins, patent medicines, etc., the figure of 1.7 per cent however overestimates the additional cost of their health services to the French as compared with the English families. Direct taxes—much lower in France than in England—and contributions to insurances, claimed about 1.1 per cent of the income of the French families. There were, moreover, some regular charges that fell to the one but not to the other group of families. In England, books and materials were supplied free to all children at elementary schools, while in France they had to be bought by the parents. Also, some children in England had meals free at school, and all school children received free one-third of a pint of milk a day. In France, neither meals nor milk were given to children except in experimental cases. On the other hand, very large reductions in fares were available to French families with dependent children, which had no parallel in England. More important, French indirect taxation was very much lower than its English counterpart, and cigarettes and alcoholic drinks in particular were much cheaper in France. It clearly is not possible to evaluate the amounts of purchase tax paid by the families of the two samples; to be able to do this would require an analysis carried through under laboratory conditions, with a careful scrutiny of every single item purchased. The only correction which we therefore shall make is to adjust the samples with respect to the recorded outlay on health services, insurances, and direct taxes. Deducting the outlay on these two items from the French gross incomes—as defined—we obtain for the average family with 1.3 earners and 1.7 children, a weekly income of just over 9,000 francs.

The average net income of the English families, containing per family 1.6 earners and 2.1 dependent children, amounted to 166s. per week. Of this about 6s. were children's allowances. If we assume that on the average a juvenile earned about half as much as an adult, we arrive for a family of 1.3 earners, of a type otherwise similar to that represented by our sample, at a weekly net income of about 150s.

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[1] Including the allowances for ' salaire unique '.

[2] Part of the cost of these items, though initially paid by the families themselves, was reimbursed to them under the health insurance.

To compare these incomes in terms of exchange values of pounds sterling and francs would be meaningless. In the fourth quarter of 1948 the official exchange rate in England was about 1,060 francs to the pound sterling. In New York the pound sterling stood at 4.03 dollars and the controlled franc at 4.67 dollars for 1,000 francs; the free franc, however, had been declining steadily, since the devaluation of the franc in January, 1948, from about 3.25 to—in December—3.15 dollars for 1,000 francs.

Considered by themselves all these figures reveal little concerning the real earnings, and the cost of living, within the countries in question. The official rates were controlled by the governments and there was no freedom of exchange. Moreover, not only were many of the internal prices subject to similar controls, but freedom of exchange of consumers' goods, too, was interfered with, either by means of rationing or—*e.g.*, with respect to rents—through price control and legislation instituted to protect consumers' interests in the face of serious shortages. We shall, therefore, have to look for some comparable data that, as far as possible, obviate the necessity to quote figures of monetary values.

4. The Patterns of Expenditure

In Table II are set out the figures of relative expenditure on food, housing, and fuel and lighting, by the French and by the English families. The outlay on these three items can be assumed to have been fully revealed in the accounts submitted in each case. For each group of families the total income, as defined above, has been equated to 100. Less than a third of this income was applied by the English families to the purchase of food, and more than half of it by the French families. Payment for housing took up nearly 8 per cent of the income of the English families, but only about 1 per cent of that of the French families. The relative outlay on fuel and lighting of the French families, too, was considerably lower than that of the English families.

Table II

Outlay of Family Income

	French Budgets		English Budgets
	4 Towns	Paris Workers	6 Towns[1]
Food	52.0	51.9	31.9
Housing	1.1	1.1	7.8
Fuel and Lighting	3.3	2.7	5.6
Miscellaneous	43.6	44.3	54.7
	100.0	100.0	100.0

[1] Full statements of income were obtained from 41 families.

The fact that the average figures of the small French sub-sample and those of the total French sample correspond very closely to one another strongly suggests that these figures are representative. Similarly, the figures obtained for the group of English families were checked against the corresponding data in the series of the English surveys in earlier years, with which they were found to show close agreement; hence these, too, may be accepted as fair indications of the relative outlay on these items by the type of English families considered.

What are the causes of such large differences in the expenditure patterns of the French and the English families ? It seems unlikely that they result from striking differences in the real values of the respective incomes, for the margins that remained after deducting the outlay on food, housing, and fuel and lighting, were large in each instance, ranging from 44 to 55 per cent of the total incomes.

There appear, in fact, to be three main causes for the different structures of the outlay patterns in the two countries: differences in the prices structures, differences in needs, and differences in tastes and habits.

The various aspects of the outlay on food will be considered presently in some detail, and we shall disregard this group for the moment. But the differences mentioned can be well observed with respect to housing and to fuel and lighting. Within the framework of the total expenditure pattern of the French families the figure of 1.1 per cent spent on housing suggests that the rents in France were very low. This was indeed so. It is worth noting that this 1.1 per cent represents the full average cost of rent in terms of income. Working class families in French towns live mostly in flats, and house ownership is rare amongst them. However, in those instances where the house was the family's property it was for the purpose of the survey assessed at its rentable value, which then was entered on both the credit and the debit side of the household account. Rents in France were controlled and fixed at highly uneconomic levels,[1] and housing shortage was general in France as it was in England. In neither country was it normally possible for a family to exchange their abode for another of a somewhat higher or somewhat inferior quality. The outlay on housing therefore represented for the families of both samples a fixed charge that was quite outside their control.

The consumption of domestic fuel depends at least to some extent on climate. On the average, France has a climate warmer than that of England, and people in France thus have less need of heating—and also of protective clothing—than people in England. Moreover, during the summer months the outlay on lighting of many French working class families is almost nil, partly owing to the fact that they tend to make more use of the daylight by getting up earlier than the average English family and partly because the French climate lends itself more than the English climate to an outdoor life, which reduces the demand for domestic lighting in the evening. Hence the needs as well as the habits of the French people indicate a demand for fuel and lighting smaller than that of the English people. No quantitative assessment of these differences other than in terms of relative expenditure is, however, possible; for to go beyond this we would require not only full information of the cost per fuel unit in the two countries but, also, a considerable amount of technical knowledge regarding the relative heating efficiency of the cooking and heating appliances most commonly used in France and in England.

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[1] Essentially based on 1914 rents. A new method of rent assessment was introduced in 1948, but the rise in the cost of rent which it brought about was very gradual and had little affected the cost of rents by 1949.

If we could assume that the French and the English families represented in the two samples derived about the same satisfaction from their total expenditure on food, housing, and fuel and lighting, we might draw the conclusion that the English families were better off than the French families, since after deducting the outlay on these three groups the English families were left with about 55 per cent of their total income while the French families only retained about 44 per cent. Such a conclusion would, however, at best be premature, since the facts as considered so far would not justify the assumption on which it could be based.

On the average, French working class families are probably as well warmed and lighted as the English families, allowing for the differences in climate and in habits. As to housing, modern working class flats in France tend to be smaller than modern English council houses; but—partly, no doubt, owing to the fact that the French can enjoy much more than the English an outdoor life—the French family is comfortable in a smaller home than the English family. On the other hand, there can be little difference in the discomfort of an English back-to-back house and an old-fashioned French tenement flat. No such broad generalisations are possible with respect to food. Before we can attempt to assess and compare the degrees of satisfaction attained by the two groups of families from their outlay on food we shall have to know a little more of the kinds and quantities that were being bought by them.

5. The Purchases of Food

The French families spent over half of their total income on food and the English families spent on it less than a third of their income. The foods that were bought by these families are given in some detail in Table III. The comparison can only be an approximate one since many foods going in the two countries by the same name are different and sometimes only very remotely resemble one another. Cheese is perhaps the example that springs first to the mind, but French sausages, cake, and jam, too, were—from a culinary viewpoint—very superior to the English varieties. All the eggs purchased by the French housewives were shell eggs, while the English housewives bought ½ egg per person per week in the form of egg powder. The cereals consumed by the French families were essentially macaroni and noodles, while the families of the British sample ate rolled oats, ready-to-serve breakfast cereals, and macaroni, semolina, barley, etc., in proportion of 2 : 2 : 1.

Although during the last quarter of 1948 food in France was still nominally rationed, the rationing was no longer effective, and the quantities that were actually purchased by the housewives who contributed to the French sample, were vastly in excess of the official rations. In England, on the other hand, rationing was strictly enforced and was fairly comprehensive, partly in the form of fixed allowances of specific foods and partly through ' points ' rationing, which latter permitted the housewife to choose from a number of foods while restricting her total purchases of them. Thus the consumption of food by the English families was largely ' planned ' while that of the French families can be considered to have been freely chosen within the families' means.

Table IV shows the relative outlay on the several foods by the French and by the English families. It will be noticed that almost a third of the total French food expenditure—just over a sixth of the total income—went to buy meat and sausages. The English families spent on these items less than a sixth of their total outlay on food, and less than a twentieth of their total income. Since the quantity of meat consumed by the French families was fairly high, the large expenditure on this item was clearly a matter of choice. By restricting their consumption to the level of the English families, the French families would have reduced their outlay on it by about a third, to about an eleventh of their total income. Yet in spite of the fact that in terms of their income they had to pay almost twice as much per unit of meat and meat products as the English families, they preferred to purchase considerably more than did the English; hence it must be assumed that this allocation of their money tended to maximize their satisfaction. Meat, of course, was rationed in England, and offals and sausages were scarce, and 1 lb. 5 oz. per head per week was probably all that could be obtained of these foods. Together with the meat the French families bought on the average far more potatoes, cereals, and dried legumes, than the English families, and while consuming more bread and fats ate less cake. Altogether, the composition of the French diets as indicated by their food purchases conveys the impression of wholesome meals eaten at home. Only 1.2 per cent of the French outlay on food went to purchase condiments, fancy foods, and meals eaten away from home, while the English families spent on these items 16.8 per cent of their outlay on food. On account of the small rations allotted in England of such essential foods—for the preparation of appetizing meals—as meat, cheese, and fats, meals away from home were for many English families a necessity, if all the members of the family were to be adequately nourished; but only about 3/7 of their total outlay on ' other foods ' was actually employed for this purpose and the remainder, about 3 per cent of the total average income, was spent on condiments and fancy foods. Some of these, too, were probably essentially substitutes for scarce rationed foods,

TABLE III

Consumption per Person per Week

		French Budgets		English Budgets
		4 Towns	Paris Workers	6 Towns
1*a*	Meat[1]	1 lb 11 oz.	1 lb 11 oz.	1 lb
1*b*	Sausages	6 oz.	5 oz.	5 oz.
2	Fish (*excluding* tinned) ...	6 oz.	6 oz.	6 oz.
3	Eggs	2 eggs	1½ eggs	1½ eggs
4	Cheese	5 oz.	5 oz.	2 oz.
5	Milk	3¼ pt.	3¾ pt.	3¾ pt.
6	Butter	4 oz.	3 oz.	3 oz.
7*a*	Margarine	2 oz.	2 oz.	4 oz.
7*b*	Other Fats	5 oz.	4 oz.	1 oz.
8	Bread	5 lb 3 oz.	5 lb 3 oz.	4 lb 4 oz.
9	Flour	2 oz.	3 oz.	5 oz.
10	Cake and Biscuits	3 oz.	2 oz.	10 oz.
11	Cereals	8 oz.	7 oz.	3 oz.
12	Dried Legumes	7 oz.	6 oz.	1 oz.
13	Sugar	11 oz.	10 oz.	11 oz.
14	Jam	3 oz.	2 oz.	5 oz.
15	Dried Fruit	1 oz.	1 oz.	1 oz.
16	Cocoa	2 oz.[2]	3 oz.[2]	[3]
17	Potatoes	7 lb 6 oz.	6 lb 6 oz.	3 lb 11 oz.
18	Fresh Vegetables	4 lb	4 lb	[4]
19	Fresh Fruit	2 lb 6 oz.	2 lb 9 oz.	[4]

[1] Including offals, cooked meats, poultry, and rabbits.
[2] Including drinking chocolate. [3] Less than 0.5 oz. [4] No weights available.

TABLE IV

Outlay on Food

		French Budgets		English Budgets
		4 Towns	Paris Workers	6 Towns
1*a*	Meat[1]	24.4	25.1	12.6
1*b*	Sausages	7.1	6.9	3.0
2	Fish (*including* tinned) ...	3.9	3.7	4.6
3	Eggs	3.9	3.7	3.2
4	Cheese	4.2	4.0	0.8
5	Milk	6.2	7.0	11.3
6	Butter	4.9	4.0	2.0
7*a*	Margarine	0.5	4.1	1.4
7*b*	Other Fats	4.1		0.8
8	Bread	8.8	8.6	7.6
9	Flour	0.4	0.5	0.8
10	Cake and Biscuits	2.2	1.4	6.7
11	Cereals	2.5	2.4	1.6
12	Dried Legumes	2.0	2.3	0.2
13	Sugar	2.4	2.3	2.3
14	Jam	1.3	1.1	3.0
15	Dried Fruit	0.9	0.5	0.4
16	Cocoa	1.8[2]	2.1[2]	0.4
17	Potatoes	3.3	2.6	4.0
18	Fresh Vegetables	5.3	5.0	8.0
19	Fresh Fruit	6.5	7.7	5.0
20	Tea and Coffee[3]	2.2	1.7	3.5
21	Other Foods[4]	1.2	3.3	16.8
		100.0	100.0	100.0

[1] Including offals, cooked meats, poultry, and rabbits.
[2] Including drinking chocolate and similar preparations.
[3] Including substitutes. [4] Including meals eaten away from home.

in that although they contained little or no nourishment they at least put some flavour into the dishes; nevertheless, some of the purchases were certainly made to satisfy the deep-rooted English taste for made-up sauces, pickles, etc., which is not shared by the French.

It would be futile to speculate on how large a proportion of their income the English families would have been willing to give over to the purchase of food, had they possessed complete freedom in their choice of foods. They doubtlessly would have spent more than they actually did, and might have bought as much meat as the French families, even if they had to give up for it an equally large share of their income. A higher outlay on food would, of course, have necessitated curtailing some other expenditure on items for which the demand is elastic. The English, however, do not take food quite so seriously as do the French, for whom a meal, even a simple one, if it is well prepared, is a feast that can be and often is, enjoyed daily. Thus part of the money laid out by the French housewife on food is undoubtedly money spent on pleasure as truly as money used by English families for, say, cinema going and smoking, both of which play a much smaller role in the life of the French than of the English working-class families.

Alcoholic drinks, in particular wine or cider, usually form part of any main meal in France, though for the children they are often diluted with water. The consumption per head of such drinks by the families of the French sample amounted to 4½ pints per head per week, with another 0.03 pints of stronger liquor. The expenditure on this whole group absorbed a little over 11 per cent of the total income, while 2 per cent of the income were spent on cigarettes and tobacco. No comprehensive information regarding the outlay on these items was available for the English families, since drinks and tobacco were purchased mainly by the earners out of their pocket money and hence not recorded by the housewives. The amount of alcoholic drinks bought by the English housewives was insignificent; but the outlay on cigarettes accounted for by them represented over 5 per cent of the total income. Only a few of these housewives purchased the cigarettes for the earners of the family. It therefore seems not improbable that the English families actually spent about as much—possibly even more—on alcoholic drinks and smoking, taken together, as the French families; for 13 per cent of 166s. are only 21s. 6d., to cover the weekly average expenditure on these items by a family containing 1.6 earners.

6. The Cost of Food

In terms of their total income the French families spent over 60 per cent more on food than the English families. With this outlay they purchased somewhat more calories and 20 per cent more animal protein per consumption unit than the English families. The foods that are sources of animal protein are, on the whole, the more expensive ones, and highly valued for their culinary appeal; if we reduce the French figures of animal protein to the level of the English figures and adjust the figures of outlay in proportion, we reduce the difference in outlay from over 60 per cent to about 36 pe cent. This does not necessarily imply that in order to attain the same nutriton as the English families the French families had to spend on food 1.36 times as much of their income as did the English families; for the dietaries of the two groups of families were different and we are here comparing only nutritive values, irrespective of the foods from which they were derived.

At this stage we are again confronted with the difficulty of evaluating patterns of consumption each of which bears the impact of different price structures, different conditions of supply, different habits and, probably, also—arising from set habits—different needs. We have already seen that no common denominator for a comparison can be found in the monetary values involved. All this, however, does not mean that we cannot reasonably attempt any comparisons at all. For a working-class family, whether in France or in England, it is not so much the price of any item in terms of francs or shillings, that has to be considered before making a purchase, but its cost in terms of the family income. Earlier in this paper we have shown the proportions of the average income spent by the families in the two countries on food, housing, and fuel and lighting. With respect to the outlay on food this analysis can be carried a step further, since for this group we possess detailed information of the quantities bought of all the main items and the proportions of the income spent on them, by both the French and the English families. This enables us to calculate indices which compare the cost per unit bought in the two countries in terms of the family income (Table V); in these calculations, the average incomes of the French as well as of the English families have been taken as unity, and price is replaced by the income percentage spent divided by the quantity purchased.

Such indices are of considerable interest, in particular in conjunction with the quantitative figures since—in so far as consumption was unrestricted by controls—they reveal at least to some extent the families' preferences. The patterns can, of course, be traced only in broad outlines. Entries in family cash books rarely lend themselves to a refined analysis, least of all when the samples are small. Their interpretation requires both care and common sense. The indices in Table V, though derived from a comparison of unit costs, should not be considered primarily as price indices but rather as data expressing the cost, in terms of income, of an indissoluble combination of availability and quality. To take an example : the unit cost of meat, in terms of their income, was 1.92 times as great to the French as to the English family. This higher income cost may be said to have been the differential which secured to the French family a much larger supply of meat, together with a wider choice and a better average quality, than could be obtained by the English family. Since the French families bought per head about 70 per cent more meat than the English families, it must have been worth to them the price they had to pay in terms of their income. Conclusions on these lines cannot be drawn from the data for the English families, since of the 17 foods enumerated in Table V, only bread, flour, cake, potatoes, cocoa, and certain kinds of cereals and of jam, were freely available. It is not even possible to assess preferences in relation to cost for the foods that were

TABLE V. *Indices of Income Cost*

		French Budgets 4 Towns *English Prices* *=100*[1]	English Budgets 6 Towns *French Prices* *=100*[2]
1*a*	Meat[3]	192	52
1*b*	Sausages	312	32
3	Eggs	132	76
4	Cheese	301	33
5	Milk	101	99
6	Butter	278	36
7	Margarine and Other Fats	244	41
8	Bread	154	65
9	Flour	189	53
10	Cake and Biscuits	179	56
11	Cereals	106	95
12	Dried Legumes	115	87
13	Sugar	173	58
14	Jam	119	84
15	Dried Fruit	327	30
16	Cocoa, etc.	82	122
17	Potatoes	69	145
		162	61

[1] and [2]: The final indices are based on the formulae:

$$\frac{\Sigma\, P_F\, Q_F}{\Sigma\, P_E\, Q_F}\,; \quad \text{and} \quad \frac{\Sigma\, P_E\, Q_E}{\Sigma\, P_F\, Q_E}\,.$$

In principle, the product of these indices need not be unity; in fact, however, they are practically reciprocals in spite of the different weights applied.

[3] The serial numbers correspond to those in Tables III and IV.

rationed on 'points', and amongst which some choice was possible, since many of the more highly prized of them were scarce.

The indices in the two columns of Table V are the reciprocals of one another. Since they were derived from rounded-off percentage figures they can make no claim to precision. The digits in the unit columns are shown in order to make the index figure in the one column correspond to that in the other; for practical purposes, however, it is better to ignore the last digits and to treat the indices only as approximations.

Only the indices for cocoa and for potatoes are lower for the French than for the English sample. The French figure for cocoa also covers the cost of relatively cheap sweetened breakfast drinks, used in particular for children, which were not available in England. The high English index figure for potatoes reflects the fact that during the earlier part of the English survey new potatoes were still fairly dear, while in France—where in any case the season for new potatoes falls earlier than in England—the survey only started in October, when potatoes had settled down to their winter price. No corrections were applied by us in these cases, which, in fact, must be considered as only two particular instances of differences in quality such as would probably be manifest on closer examination with respect to every single item in the two surveys. Moreover, the unit costs compared in Table V cover only about 81 per cent of the outlay on food of the French families and only a little over 61 per cent of that of the English families; the remaining margins include the expenditure on fresh vegetables and fruit, which amounted to between 12 and 13 per cent. We are in no position to calculate the unit prices of these foods, but we know that they were relatively cheap in France. Hence the apparent distortion in particular of the indices for potatoes may be assumed to act as a useful corrective on the weighted cost indices, which, otherwise, would differ more widely.

If we accept the indices in Table V we find that the average cost of food, in terms of the families' incomes, was about 1.6 times as high in France as in England. But we have already seen that the French families only spent about this much more on their total food purchases, which yielded 20 per cent more animal protein than did the purchases made by the English families. The French families, however, not only consumed relatively large quantities of meat, which is a dear food, but also large quantities of potatoes, bread and legumes, which are cheap and filling, while the English families had a fairly substantial outlay on such rather expensive items as cake, fancy foods, and meals eaten away from home.

6. The Nutritional Intake

So far, we have in the main considered the consumption per head, and only when touching on the nutritional aspect of the food purchases did we mention a ' consumption unit '. No analysis of nutritional intake can, however, yield much information without some such standardization, since the requirements for the different nutrients vary considerably for the different age groups. Table VI gives the scales which we have applied for measuring these requirements in terms of Male Adult Equivalents. They also show for the families of the samples the average MAE per head, calculated by means of these scales. The scales which we are using here are somewhat simpler than those we usually employ. The reason for this is that the ages of the persons of the French samples were stated only within fairly wide ranges, and more detailed scales might have suggested a degree of refinement in the calculations that actually could not be attained. Table VII shows the intake that was available from the foods the nutritive values of which we could ascertain. From this analysis all fresh fruit and vegetables had to be excluded and also some of the fancy foods; it further omitted the milk that was obtained free at school by the children of the English families, since we could not always be sure that it was actually drunk by the children. These omissions, while probably little affecting the average figures of calorific and protein intake, are likely to introduce a definite downward bias into the figures relating to the mineral intake. Yet for comparative purposes the data in Table VII are reasonably satisfactory since the same methods of analysis have been applied to the French and to the English sample. The main difference in the nutritional intake, available, respectively, to the French and to the English families, has already been mentioned: it consists in the substantially higher amount of animal protein obtained by the French families. Apart from this the nutritional values of the French and of the English diets appear to have been fairly similar.

TABLE VI. *Nutritional Requirements*

	Requirements in Terms of Male Adult Equivalents			
	Calories	Protein	Calcium	Iron
Adult Male	1.00	1.00	1.00	1.00
Adult Female	0.83	0.86	1.00	1.00
Children 12—15 years	0.97	1.36	1.88	1.60
7—12 years	0.70	0.93	1.75	1.30
3—7 years	0.50	0.71	1.63	0.80
1—3 years	0.37	0.60	1.38	0.50
under 1 year	0.23	0.30	0.56	0.30
Av. Requirements per Head : ...				
French { 4 Towns	0.77	0.88	1.32	1.02
French { Paris	0.76	0.87	1.31	0.98
English, 6 Towns	0.80	0.92	1.28	1.04
	Actual Requirements			
	Calories	Protein gm.	Calcium gm.	Iron mgm.
Per M.A.E.	3000	70	0.8	10
Per Person :				
French { 4 Towns	2310	62	1.06	10
French { Paris	2280	61	1.05	10
English, 6 Towns	2400	64	1.02	10

TABLE VII. *Nutritional Intake per Day*

	Calories		Protein (grammes)				Calcium (grammes)		Iron (milli-grammes)	
			Person		MAE					
	Person	MAE	animal	vegetable	animal	vegetable	Person	MAE	Person	MAE
France, 4 Towns	2600	3400	37	39	42	44	0.67	0.51	13	13
Paris, Work'rs' Fam.	2450	3250	37	37	43	42	0.70	0.53	13	13
English Budgets :										
Foods in Tab. III	2050	2600	27	34	29	37	0.67	0.53	10	10
Other Foods[1] ...	450	550	5	12	6	13	[2]	[2]	[2]	[2]

[1] Fancy foods, certain tinned foods, and meals eaten away from home.

[2] Sufficiently detailed information not available.

7. CONCLUSION

Our comparison of the expenditure of French and of English households has brought out some of the difficulties that stand in the way when we try to evaluate the standard of living of a defined group of people in one country in terms of the standard of living of a somewhat similar group in another country, even when the countries in question are such relatively close neighbours as France and England. Different countries not only have different price structures and different conditions of supply, but different tastes and different needs. By means of data in the foregoing pages one could, indeed, set out to 'prove' either that the French working-class families were better off than the English, or that the English were better off than the French. What actually we did discover was that the French paid for food a higher price in terms of their income than the English families, but, in spite of this, purchased more of the more expensive protein foods than the English. Rents in France were very much lower in terms of income than rents in England. However, after paying for food, housing, and fuel and lighting, the French families had only about 44 per cent of their income left for other purchases, while the English families retained for this purpose on the average nearly 55 per cent.

T. SCHULZ.

COST CURVES FOR GAS SUPPLY[1]

In pre-war days the Board of Trade issued an annual return relating to all authorised Gas undertakings in Great Britain, this being in two parts: (1) Particulars relating to the Manufacture and Supply of Gas and (2) Finance and Prices. Part 1 continued to be issued up to 1948 but the last issue of Part 2 was for 1937.

These returns give, for each undertaking, *inter alia*, the total annual expenditure on revenue account and the gas made so that, if undertakings which purchased gas from other authorities and companies or which bought coke oven gas are excluded, in order to ensure that expenditure relates only to manufacture of gas and its distribution, it is possible to compute total working expenses per unit and to examine, for 1937, the variation in this ratio with the size of undertaking. Unfortunately, expenditure is not broken down at all between manufacture and distribution so that it is impossible to analyse the constituent elements in total cost separately. Total working expenses, in fact, include cost of manufacture, distribution, management, and other overheads.

The great difficulty about analysing costs of gas supply is that hardly any two undertakings are strictly comparable. In the first place it is necessary to consider local authorities and companies separately, since it cannot be assumed that the revenue accounts in the two cases are drawn up on a consistent basis. Apparently the pre-war statutory return bore no instructions on this matter. It is likely that companies charged depreciation direct to revenue whereas in the accounts of local authorities the corresponding transfers to sinking funds would be shown as appropriations of gross profit.

A further difficulty arises because the level of prices, wages, salaries, rents, etc., will vary in different areas. This is particularly true of coal prices which are supremely important here. Efficiency, too, might be higher in some regions than in others, so that we cannot include in the same analysis undertakings in different parts of the country. Three areas are considered, the South-East, the Midlands and the North West.

In order to retain homogeneity attention is confined to undertakings manufacturing gas only from carbonisation of coal, and those manufacturing quantities of other gas (producer, water gas, etc.), are excluded. Furthermore since distribution costs of an undertaking which sells much of its product in bulk to other undertakings may be exceptional, such are excluded, although a few, selling negligible quantities of gas in this way, are considered comparable and included.

Even with a break-down so fine as this there is still a good deal of variation in expenditure per unit at any one size level. Indeed it has been said[2] that almost every gas undertaking works in a unique local economic environment of its own. Type and age of plant, the load factor, the market for residual products, the kind of supply area, are merely some of the variables leading to differences in costs for the same size of undertaking even within any of the categories specified. Unfortunately many of these are qualitative and incapable of measurement while for others the data are generally not available. There is one important variable of which notice can and must be taken; the calorific value of the gas made has a material influence on costs of production and so on total working expenses of the undertaking.

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[1] The author is indebted to the Statistics division of the Ministry of Fuel and Power for helpful information supplied in connection with the preparation of this paper.

[2] P. Chantler, *The British Gas Industry* (1938).

It is possible that the effects of inability to take account of the factors, mentioned above, which cause heterogeneity are not too serious since they may not be correlated in any way with size of undertaking. There are influences, however, which would certainly affect large companies or authorities in a manner different from small ones. For instance, the larger undertakings probably provide the consumer with better standards of service and so incur added expenditure. The large suppliers may spend much more on research and technical development. On the other hand, almost inevitably, the big undertakings will serve more compact, built-up, densely-populated areas and distribution costs per unit sold are probably low compared with smaller units supplying scattered, sparsely-peopled areas. Then again, in many cases, small undertakings are subsidiaries of a holding company and, though the consequences of this vary a good deal, may enjoy economies through the bulk purchasing of materials and equipment and the provision of technical advice.

Subject to these qualifications the variation with size of costs per unit in 1937 is examined for those

(i) Companies in the North West
(ii) Local Authorities in the North West
(iii) Companies in the Midlands
(iv) Local Authorities in the Midlands
(v) Companies in the South East

with a declared calorific value between 470 and 500 B.Th.U. per cubic foot.

Owing to the predominance of companies in the South East there were insufficient municipally-owned undertakings in that area to be analysed.

The Board of Trade returns relate to authorities or companies and any single pair of values of expenditure and production may be aggregates for a number of separate plants. This is unfortunate from the standpoint of costs of production but entirely satisfactory as regards distribution, management, and the other overheads.

In each case a reasonable fit to the scatter of points representing individual undertakings can be obtained by a curve of the type

$$Y = aX^{-b}$$

where Y = £ Expenditure per mn. cu.ft.
X = Annual Production in mn. cu.ft.

TABLE I

Numbers of Undertakings Included

Gas made in mn. cu. ft.	North West		Midlands		South East
	Companies	L.A.'s	Companies	L.A.'s	Companies
0—50 ...	9	2	12	7	13
50—100 ...	2	8	5	1	6
100—250 ...	3	3	4	6	5
250—500 ...	0	3	0	1	1
500—1000 ...	0	1	1		
1000+ ...	1	4	0		
Total	15	21	22	15	25

TABLE II

Average Expenditure per mn. cu. ft.

Gas made in mn. cu. ft.	North West Companies	L.A.'s	Midlands Companies	L.A.'s	South East Companies
	£	£	£	£	£
0—50 ...	261.88	262.67	266,42	245.02	328.53
50—100 ...	210.72	203.53	221.18	236.74	272.47
100—250 ...	205.13	180.36	228.84	200.70	216.53
250—500 ...		206.27		162.90	218.56
500—1000 ...		196.98	147.51		
1000+ ...	169.50	158.39			

TABLE III

Estimates of a and b

Parameter	North West		Midlands		South East
	Companies	L.A.'s	Companies	L.A.'s	Companies
a	367.76	247.78	377.17	368.98	494.64
b	0.120	0.083	0.117	0.127	0.150

Values given by these functions at different size levels are as follows :

TABLE IV

Expenditure per mn. cu. ft.

Gas made in mn. cu. ft.	North West		Midlands		South East
	Companies	L.A.'s	Companies	L.A.'s	Companies
	£	£	£	£	£
50	230.19	216.68	238.95	224.74	275.23
100	211.87	204.51	220.39	205.83	248.08
250	189.84	189.47	198.04	183.25	216.25
500	174.72	178.84	182.66	167.84	194.91
1000	160.80	168.80	168.46	153.72	175.69

Certain conclusions immediately emerge. Generally, expenditure on revenue account, for the same size of undertaking in the same area, tended to be lower in local authority undertakings compared with private companies. This was, no doubt, due to the fact that, no instruction being given to the contrary, companies charged depreciation direct to revenue while the corresponding transfers to sinking funds by municipally-owned undertakings would be shown as appropriations of gross profit.

Secondly, referring to the three areas considered, costs usually are lowest in the North-West and lower in the Midlands than in the South East. This, again, is not unexpected. The general level of prices, and wages, broadly speaking, probably varies in this way and efficiency in gas supply measured, say,by output per head seems to be very low in the South East, although there is not much evidence that the Midlands show up badly in this respect in comparison with the North West.

Finally, there appears to be no doubt that increasing returns to scale of operation apply in Gas Supply. There is an appreciable range in costs at any one size level which is mainly attributable to variations in such local economic conditions as density of population in the supply area, the opportunities for selling by-products of the gas-making process, the labour available, the type of plant and its age. This does not obscure, however, a clear tendency, in each category considered, for points representing individual undertakings to be scattered about a downward sloping curve. It seems that quite definite economic gain is to be derived from concentration of production in large undertakings, a process which is proceeding. The average size of undertaking in mn. cu. ft. of gas made annually was 621 in 1947 compared with 445 in 1937 and 396 in 1929.

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July 1951.

INTERNATIONAL EQUILIBRIUM AND U.S. PRIVATE INVESTMENT

I

There has recently been a revival of the view that U.S. private investment could and should play a decisive role in preventing the recurrence of the dollar crisis. The initial inflationary tension in America due to the sharp increase in armaments expenditures is likely to be damped down by the increase in tax receipts and savings on the one hand and productive capacity on the other. The problem is therefore more urgent than most authors seem to think. The so-called Gray Report still recognized the fact that private foreign investment could only play a limited role.[1] It stated that :

'the effective action that the Government can take unilaterally (to stimulate such investment) is limited. The granting of blanket tax premiums on investment abroad as compared with investment at home would be inequitable and of uncertain effectiveness. The effects of treaties and of guaranties against non-convertibility and expropriation in stimulating a large flow of new foreign investment are also uncertain.'

'The prospect is that new petroleum investment over the next few years will fall sharply, and that some increase in the rate of mining investment in foreign properties can be anticipated. It seems probable that total American private direct investment abroad in the next few years will not exceed the 1947–49 average and may fall substantially short of this. Furthermore, only a few hundred million dollars, at most, is likely to be invested in underdeveloped countries outside the Western Hemisphere in properties not related to oil. Taking into account the known obstacles, and the uncertain effectiveness of the limited measures that can be taken to overcome them, it must be frankly recognized that private investment cannot be expected to solve the problem of financing development alone.'

This realistic appraisal of the situation has completely changed. The so-called Rockefeller Report not merely envisages a more than double rate of private as compared with public investment but wishes to stimulate it by precisely the steps which the previous Report rejected as ineffectual and inequitable.[2] They conclude that[3]

'the projected rate of private investment abroad in mineral development could be quickly doubled. Aside from minerals, important expansions are contemplated to increase our supplies of rubber, petroleum, fats and oils, and some basic fibres.'

'The 2-billion-dollar investment in expanded strategic-materials production, referred to by the Advisory Board, would probably require 4 to 5 years to complete. As stated earlier, the Advisory Board feels no further time should be lost in acting.'

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[1] Report to the President on Foreign Economic Policies, Washington, November 10th, 1950, pages 62–3.

[2] Partners in Progress. A Report to the President by the International Development Advisory Board, March, 1951. The startling change can be explained by the fact that the first Report was written by some of the foremost experts in the field. The second was prepared by a staff not merely much less versed in the problems under discussion but it had to be signed by a Board on which no experts have a seat. Moreover, both the Chairman and the Director of Research were members of the International Basic Economy Corporation, a private company engaged in financing development work in co-operation with the Governments of various South American under-developed countries. Their own experience can unfortunately hardly be generalized as they have an exceptionally strong financial backing and a very enlightened policy.

[3] Page 54.

In order to stimulate investment they wish to grant complete tax-exemption from U.S. income tax (and not merely the avoidance of double taxation) on new foreign investment. They furthermore suggest that bilateral treaties should be negotiated with underdeveloped countries in order to assure not merely that adequate compensation be paid to the investor in case of nationalization, but also to permit the remittance of both earnings and of *withdrawals of capital* (without, it seems, any regard to the consequences of such, possibly haphazard, withdrawals on the economy of the borrowing country). The more obvious and welcome recommendation that a new International Finance Corporation be set up :

> ' with authority to make loans in local and foreign currencies to private enterprise without the requirement of government guaranties and also to make nonvoting equity investments in local currencies in participation with private investors.'

is robbed of importance by the insufficiency of the means contemplated. True enough the U.S. Government grants of $500 m. p.a. over the next five years are to serve only as a basis of further loans, governmental or otherwise. But the new Corporation is to be limited to $400 m. of which the U.S. share is only to be £150 m. As against this private direct investment in raw material and food producing enterprises is to rise to $2000 m. p.a. (or $1000 m. above the current rate). Thus the predominance of *private* foreign investment is now recommended as the basis for U.S. foreign economic policy.

This shift from the basic concept of Marshall Aid and the Fourth Point of Mr. Truman's 1949 programme is probably the combined result of the fear of Congressional opposition and of the siege economy mentality which concentrates on short term armament procurement and judges all economic measures exclusively from that point of view. There are really two problems involved : the first is the long-run problem of the U.S. balance of payments, of the dollar crisis; the second is that of the unequal international distribution of capital and income. The solution of the second is one of the conditions of a satisfactory solution of the first but will not itself provide that solution. The new U.S. attitude is likely to aggravate both problems.

II

Official statistics published by the U.S. Department of Commerce show conclusively that the hopes for a solution of the problem of international economic equilibrium mainly through increased American private investment are not justified. *A priori* reasoning would suggest that private interests do not invest abroad except in ventures which earn high returns : and this fact will not be changed substantially by tax-exemption. Thus U.S. ' direct ' foreign investment—in so far as it results in a growing control of the sources of supply of vital primary products or services, far from tending to restore balance, will increasingly come to represent an additional source of embarrassment, as in the early post-war period.

The value of private U.S. direct investments and its geographic and economic distribution was as follows :

TABLE I

Factors Affecting Value of United States Private Direct Investments Abroad, 1946–49
[Millions of dollars ; reduction (—)]

Area and Industry	Value end of 1945	1946–49			Value end of 1949
		Capital movement	Reinvested earnings	Other factors	
ALL AREAS	8,369	2,362	1,766	—34	12,462
Canada	2,527	234	647	—	3,408
American Republics ...	2,999	1,249	547	—12	4,783
ERP countries	1,689	147	292	—	2,128
ERP dependencies ...	264	155	133	—	552
Other Europe	329	20	14	—22	341
All other countries ...	561	557	133	—	1,261
ALL INDUSTRIES ...	8,369	2,362	1,766	—34	12,463
Manufacturing[1]	2,671	198	1,027	—10	3,886
Distribution	671	143	174	— 2	986
Agriculture[2]	518	48	70	(3)	636
Mining and Smelting ...	1,064	97	45	— 2	1,204
Petroleum	1,538	1,762	388	—17	3,671
Public utilities	1,357	—75	28	— 3	1,307
Miscellaneous	550	189	34	(3)	773

Note.—Capital movements represent the net of known new investments less liquidations. Reinvested earnings are the undistributed portion of the United States equity in the net earnings of foreign-incorporated subsidiaries. Other factors affecting the change in value include some allowance for losses on liquidation and for nationalized investments in Yugoslavia for which compensation has been paid. Value is the book value of the American equity in direct investments abroad, and includes expropriated property for which compensation has not yet been received and properties in Germany and Japan. No allowance has been made for war damage or for fluctuations in foreign exchange rates, except that current transactions included in columns 2 and 3 above are converted at current exchange rates.

[1] Includes paper and pulp enterprises.

[2] Includes fishing enterprises.

[3] Less than $500,000.

Source : U.S. Department of Commerce, Office of Business Economics.

It is seen that the Western Hemisphere retained its leading place as an outlet for U.S. direct private investment. The violent rise of the ' other countries ' from $500 m. in 1945 to $1,300 m. in 1949 is mainly due to the investment in oil wells, as can be seen from the geographical distribution of capital exports. The magnitude of the manufacturing and distributive investments is surprising. It shows how far Britain's position as the leading mercantile country has been weakened. In the former paper and pulp, in the latter petrol and motor-car distribution must have played an important role. Mining and smelting and oil accounted for more than 40 per cent of the total.

The post-war increase in the value of foreign direct investments—amounting to $4,128 m. is the result of a capital export of only $2,362 m. The remainder of $1,766 m. is *the consequence of the reinvestment of earnings.*

Even this rather startling fact does not fully reflect the position! Almost 75 per cent of *new* capital export is due to the development of oil wells. Once the basic development of the Arabian fields is accomplished, which will raise their output from some 2 to over 70 million tons (and it is nearing its end with opening of the pipeline to the Mediterranean), this position is likely to alter dramatically, as it has already altered in manufacturing and even distribution. A far greater yield over-all is then certain. Yet total earnings of U.S. companies have been colossal already in the past years:

Overseas Earnings of U.S. Companies 1948–9

	Mill. of $		
	1948	*1949*	*Total*
Income transferred	1,111	1,066	2,177
Income reinvested	569	495	1,064
Total	1,680	1,561	3,241

As the nominal value of direct investments was some $12,000 million the effective rate of return was some 14 per cent, *after* taxes. A further rise towards 16–18 per cent is virtually assured.

The futility of the proposed new policy is further demonstrated if account is taken of the fact that much the greatest part of the cost of mining development is represented by the value of capital goods needed for the exploitation of the natural resources and the salaries of the technical staff. The wages locally paid out, generally speaking, amount to only a fraction of total expenditures. Now it is evident that, for strategical reasons alone, American companies would rely mainly on American equipment. And in this type of equipment U.S. heavy industry has a decided relative advantage due to its domestic mass market. Moreover, U.S. firms would trust the technical 'know-how' of American experts more readily, even if foreign experts were available, as they probably are not. Thus one cannot help concluding that only a fraction of any total American private capital exports would be available in 'free' dollars to the world. On the other hand the gushing revenue yielded by selling these raw materials to third countries (as is the case already with Arabian oil) will increase the shortage of dollars.[1] Nor must it be forgotten that the contribution which such investment can make to an international redistribution of income is limited. Only a small portion of the population in the underdeveloped countries will benefit. Moreover generosity on the part of American corporations to their employees may well make for greater social tension between them and those who do not participate in these benefits. The charge that the natural resources of the 'underdeveloped' (colonial) areas are being exploited cannot be refuted easily. The recent history of colonial enterprises is not encouraging.

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[1] Part of the earnings of course will be paid out as taxes and/or royalties to foreign countries. It is most unlikely, however, that so much of the increased production will be absorbed by the U.S. as to result in a net outflow of dollars. As the example of Arabian oil and the Chilean copper indicates, the world is much more likely to become a net debtor of the U.S.

III

If the suggestion that some $10 billion private direct investment should be put into primary resources seems impractical and impolitic, both reports envisage a scale of other Government financed investment (both loans or grants) which, in practice, would seem to mean *a continuation of the present trend towards an increasing international inequality of income and wealth.* This would aggravate existing social tensions and reflect rather ironically on the title of the second of the Reports : ' Partners in Progress '. Two problems will have to be considered in this connection. In the first place we shall have to enquire into the consequences of the present closing of the dollar gap. In the second place we shall have to analyze the order of magnitude of the factors governing the relative progress, and the relationship to one another, of the more important constituent groups of the Western World.

In the first place both U.S. Reports regard the unexpected and quick disappearance of the dollar shortage, not merely as an unequivocal boon, but also rather permanent in character. Neither of these implications of the reports can be accepted without qualification.

We have in an earlier paper[1] shown that apart from stock-piling—a once-for-all operation which is coming to an end—it was the violence of the increase in the U.S. total demand, a simultaneous increase of Government expenditure (mainly on armaments) and of private investment, as well as of consumption expenditure, which caused it to outrun the increase in supply capacity—however sustained and large the latter was. So large an acceleration of the increase in demand cannot last (unless war supervenes). I have argued elsewhere that it is difficult to foresee a smooth replacement of the increase in Government expenditure by an increase in private investment and consumption, though there are some important ' built-in ' or automatic stabilizers of demand in the progressive character of the tax system and in the very high level of overhead costs, which cause a rapid diminution of the level of ploughed back profits, *i.e.*, saving, in case of a slump. The present fears about the threat of a runaway inflation seem grossly exaggerated. They resemble the fears entertained early in 1949 when sharp powers of deflationary control were insistently called for by the Government hardly a month prior to the most rapid rate of fall in U.S. production in recent decades. Should a deflationary gap re-emerge, the propensity to import is likely to drop sharply. This will not merely reduce the volume of imports, especially of manufactured goods, but will also reduce their prices, *i.e.*, improve the terms of trade of the U.S. The gain of the U.S. might well amount to $1–2 billion in terms of present prices.[2]

This brings us to the second question : the improvement of the balance of trade of the world with the U.S. can only be considered as an unequivocal boon (as contrasted with a deficit sustained by U.S. unilateral grants) in so far as it is a consequence of the *improvement of the terms of trade* of the rest of the world with the U.S. No doubt this was the case to a considerable extent : the U.S. terms of trade worsened by some 20–25 per cent in the last 18 months. This resulted in an improvement of the balance by $2–2.5 billion or so. The rest, however, came from the world receiving less from and giving more to the U.S. than before : this represents an impoverishment. True enough that these twin effects were not uniformly divided : Britain having the worst of both worlds.[1] Her net receipts from the U.S. vanished and her terms of trade worsened. In some of the other countries the two factors offset each other and in the primary producing areas there was a large net gain.

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[1] Rearmament and the U.S. balance of payments. BULLETIN, May 1951.

[2] Though in all likelihood there will be a permanent improvement in the ratio of primary to manufactured goods prices.

Now in so far as most of the underdeveloped countries are primary producers it could be argued that this development represented a measure of practical international equalization of income. Two things must be said in this connection. In the first place it should not be forgotten that even if most underdeveloped countries are primary producers, all primary producers are not underdeveloped countries. Some are among the richest communities of the world, while many manufacturing countries are relatively poor. Thus this method of redistribution is not merely very expensive for the U.S.; it is also inequitable. Secondly even such improvement as, in fact, accrues to the underdeveloped areas is not always put to their best advantage. It benefits mainly landlords (including plantation companies) and merchants. And in so far as it benefits the poorer classes it will represent an improvement which would disappear if prices decline. Only if the entrepreneur themselves invest the gains in the underdeveloped country, or the gains can be collected by the Government through income or export taxes for development purposes, can it be regarded as a full equivalent of unilateral grants by the U.S. Thus direct grants are a cheaper, more effective, more equitable and politically much more advantageous method of redistributing income internationally than an improvement in the terms of trade. Unfortunately, it is only too likely that the resistance against grants will increase *pari passu* with the improvement of the terms of trade of the U.S.

TABLE II

	U.S.	Western Europe	Under-developed Areas
Population (million) ...	154	270	1550
National income ($ billion)	270	140–150	100
Net investment „	30–40[5]	12–14[5]	5[5]
Imports ... „	7.4[4]	14[2]	16[3]
Exports ... „	11.4[4]	9[2]	14[3]

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[1] The total worsening of her position was not immediately felt : the accumulation of sterling balances postponed the day of payment.

[2] 1950. [3] 1949. [4] 1948–50 average. [5] Ranges 1948–50.

(worsening of that of the primary producers). Thus the outlook for a continuous expansion and equalization of income in the world is not bright.

Table II gives a comparison of the order of magnitude of the various important economic factors determining progress and stability. It is seen that total net investment in the U.S. is double that of the most of the rest of the world combined. *Per capita* investment amounted to some \$200-\$250 per year as against \$50 in Europe (only \$70 even in Britain) and some \$4 in the underdeveloped areas. Even if we take into account that the opportunities for increasing productivity by capital investment are much greater in the more primitive communities than in the U.S. the discrepancy is startling. Moreover, it should be remembered that the rate of increase of the population in the underdeveloped areas is still as high or higher than even the rapid post-war rate of increase in the United States. Moreover, in these areas (though not to the same extent in Europe) very heavy investment is needed in public utilities and transport as well as technical education, which is not immediately or directly ' productive ' or profitable. The productivity of marginal capital investment even in the highest developed countries, *e.g.*, the United States, shows marked fluctuations as building and public utility investment varies in importance as a fraction of total investment. Thus it would be dangerous to assume that an increase in investment in underdeveloped areas will yield disproportionate results.

It is possible that the estimate of the United Nations' Expert Committee on the ' Measures for the Economic Development of Underdeveloped Countries '[1] under-estimates the probable return on investment. Its estimate is that an increase of investment from roughly 5 to 20 per cent of their national income would only raise the latter by 2½ per cent (of which ½ per cent would be absorbed by an increase of the population). But it is likely that the *present* rate of investment would barely suffice to maintain their present standard of life. And in the best of circumstances one could not hope for an increase in national income per head comparable to that of the U.S. (4–5 per cent at full employment) without a prodigious import of capital. The UNO experts' calculation demands \$14 billion, without including public amenities.

Both the Gray and the Rockefeller Reports envisage only an annual help of \$500 million to the underdeveloped areas (present appropriations for this amount to only \$200 m. or one-third per cent of the armaments expenditure contemplated). Private capital exports, as we have seen, can hardly be counted upon to increase either the supply of free dollars or the standard of life of the underdeveloped areas. Thus the insufficiency of the official U.S. proposals is manifest, even if we take into account further (public) loans (as contrasted with grants).

A further point needs to be added. Concentration on the immediate increase of the output of primary goods in underdeveloped areas is likely to endanger social reform, in so far as social reform slows down the increase in output at any rate to begin with. Yet it is questionable whether a mere increase in output without social reform will serve the purpose of alleviating social unrest in these countries. Moreover, the eventual increase even in primary (especially food) production will depend on a certain degree of technical education and industrialization, as modern methods of production necessitate the maintenance and repair of machinery.

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[1] New York, May, 1951.

Nor can these plans contribute much to the maintenance of economic stability of the United States and thus also of that of the Western World as a whole. It is seen from Table II that the threat of a potential disequilibrium between the U.S. and the rest of the world has substantially increased. Current investment in America has expanded to almost four times the value of exports (and is an even greater multiple of the value of imports). A change in the U.S. balance of payments which might have devastating consequences on foreign countries will make hardly any impression on U.S. business activity. Nor can any solace be gleaned from the fact that U.S. business would not be much affected by an import surplus, as it is unlikely that an import surplus will materialize when the U.S. is (even slightly) depressed. A recurring crisis in the Western World is therefore highly likely, with periodic devaluations; and the relative poverty of the area outside the U.S. will further be increased.

It is quite clear that this trend of events will prove politically intolerable. A return to non-discrimination and convertibility will not be possible and the rest of the world will isolate itself from the unfavourable influences emanating from the United States. Only a co-ordinated and effectively planned system of international government grants to poor areas, financed by levies on the rich countries which increase progressively with increasing national income would provide a sound alternative. In the case of the U.S. this contribution should certainly be at least $4–5 billion p.a.

IV. CONCLUSIONS

We conclude:

1. Private direct investments by the U.S. cannot materially contribute to the achievement or maintenance of international equilibrium. They are likely in the longer run to aggravate the dollar crisis.

2. The degree of potential disequilibrium in the U.S. and therefore also of the rest of the world has increased and is likely to increase further. The inequality in the international distribution of wealth and income is equally worsening.

3. The plans endorsed by two recent U.S. Government Reports which envisage direct grants to underdeveloped countries of only $500 m. p.a. are insufficient to contribute to the solution of the problem either of international inequality or international instability.

4. At the present rate of increase of U.S. output capacity a serious deflationary problem is likely to arise after 1952 unless the rate of rearmament is stepped up even further. Alternative private investment outlets will hardly suffice for long to stave off the emergence of a deflationary gap. Thus an early agreement on an International Development Plan and the establishment of an effective international organization on the technical and political level seems essential if renewed crises in the Western World are to be avoided.

5. No relaxation of existing direct controls on international trade and payments must be envisaged by any Western European country (including Britain) prior to such international agreement.

T. Balogh.